



March 16, 2009

AGENDA ITEM 4

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Policy Subcommittee Report
- II. PROGRAM:** Total Fund
- III. RECOMMENDATION**
 - a. Total Fund – Revision of Policy on Currency Overlay Program
 - b. Asset Allocation – Revision of Policy on Asset Allocation Strategy
 - c. Supplemental Income Plans (SIP) – Revision of Policy on SIP CalPERS Risk-Based and Target Retirement Date Funds

IV. ANALYSIS:

Background

The Policy Subcommittee met on February 17, 2009. The Subcommittee reviewed proposed revisions to several policy categories, including Total Fund, Asset Allocation, and Supplemental Income Plans policies.

The revised Policies are attached. Unless otherwise noted, the revised Policies are presented as black-lined versions from the last adopted policy by the Investment Committee. The black-line uses strike-out to indicate deletions and double underline to indicate additions. Single underline does not indicate a change; rather it indicates that the term is defined in the glossary.

Each of the recommended policy revisions are explained below.

Revision of Policy on Currency Overlay Program

Staff recommended the following two changes to the Currency Overlay Program policy:

- Apply the currency exposure aggregate at the Total Fund level, rather than at the international equities level.
- Revise the benchmark from 25% of the developed market international exposure to 15% of the Total Fund foreign currency exposure.

Staff and Wilshire Associates will collaborate on any Program refinements by June 2009.

During the Policy Subcommittee meeting, Staff recommended deletion of the proposed Custodian responsibility language (section III.A.4) to be consistent with the Policy Review and Consolidation Project objectives. The Subcommittee recommends approval of the Currency Overlay Program policy as presented.

Revision of Policy on Asset Allocation Strategy

Staff recommended the following changes to the Asset Allocation Strategy policy:

- To accommodate extreme volatility and urgent liquidity needs, the Investment Committee previously approved expanding policy ranges. The policy has been updated to reflect these changes. New targets and ranges will be selected by the Investment Committee following the Asset Allocation workshop.
- Substitute language in Section VI.B. ensures consistency with the language in the Affiliate Funds policy.
- Settlement time for swaps will be increased from “monthly” to “quarterly or more frequently” to align with the settlement period for some currency swaps.
- The specific leverage limit has been eliminated. Program leverage limits will be specified in the individual program policy.

The Subcommittee recommends approval of the revised Asset Allocation Strategy policy.

Revision of Policy on SIP CalPERS Risk-Based and Target Retirement Date Funds

Staff recommended widening previously established ranges for selected funds around existing policy targets to allow more flexible rebalancing. This is expected to reduce the costs associated with rebalancing.

The Subcommittee recommends approval of the revised SIP CalPERS Risk-Based and Target Retirement Date Funds policy.

Discussion of Policy on Leverage

As discussed in December 2008, Staff is engaged in developing Fund-wide risk metrics to ensure an integrated and holistic approach to risk management.

Staff proposes to address several different financial risk factors through the Leverage Policy, which has been drafted and is currently under review. Other financial risk factors will be addressed by appropriate amendments to the existing Risk Management Policy.

Policy Review and Consolidation Project Update

With the review of the Real Estate and Operations policies, the Policy Review and Consolidation Project is scheduled to be completed by June 2009.

Staff plans to present a follow-up item at the April 2009 Policy Subcommittee meeting with recommendations for future courses of action related to policy review and updates.

V. STRATEGIC PLAN:

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

The results of this item will provide CalPERS with enhanced efficiencies and ability to manage the overall portfolio. The revised policies will provide a foundation for compliance, accountability, and transparency.

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